PENTAGON REVISES ARMS SALE PLAN

Compromise Credit Formula for Export-Import Bank Pressed in Congress

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WASHINGTON, Aug. 19 — Pentagon officials have quietly been promoting among key members of Congress a plan to enable the Defense Department to continue selling arms to underdeveloped countries on easy credit terms through the Export-Import Bank.

The existing authority, which made possible $604-million in arms credit sales to 14 developing countries in the last [illegible] years, was killed by the [Sen]ate on a 46-to-45 vote [dur]ing this week's debate on $2.6-billion foreign aid au[thori]zation bill.

For the present fiscal [year] which began July 1, $25[...] lion in credit sales had [been] planned.

Conference Committee

The House is scheduled to begin debate on the foreign aid authorization bill Monday or Tuesday. The Johnson Administration assumes that the House will approve the Pentagon's present arms credit sales authority intact.

In that event, the issue would go to a House-Senate conference, and the Pentagon hopes that the substitute formula will become the basis for a compromise settlement.

The Administration contends that unless the credit sales authority is revived in some form, it will be unable to bolster the defenses of pro-Western Middle East governments.

It also says it would be unable to meet in the next few years $730-million in obligations to United States arms suppliers resulting from overseas commitments already made.

The chief difference between the present law and the Pentagon's substitute proposal is that under the substitute there would be no revolving fund on which the Pentagon could draw to guarantee the Export-Import Bank against loss in event of defaults by purchasers of United States arms. The $383-million now in the revolving fund would revert to the Treasury.

The Defense Department's gurantee functions would be exercised by the President, who could use regularly appropriated military aid funds plus "the full faith and credit of the United States" to guarantee the credit provided by the Export-Import Bank.

Guarantee of Credit

As under the present law, the bank's credit would be considered guaranteed by the posting of 25 per cent of the amount of the financing in a reserve account separate from military aid funds. In this way, the Pentagon could make available $200-million in arms through the bank by putting up $50-million of guarantees.

The substitute proposal, planned as an amendment to the military assistance title of the Foreign Assistance Act, would provide the following:

"The President may use funds available under this part to finance sales of defense articles and defense services to any friendly foreign country or international organization on such terms and conditions as he may determine.

"In carrying out this section the President may—

"1. Acquire defense articles and defense services from source for sale by the United States Government to purchasing countries or international organizations; and

[...] Policies.

The latter group is composed of the Secretaries of the Treasury and Commerce, the chairman of the Federal Reserve Board and the president of the Export-Import Bank.

The substitute formula has been discussed by Pentagon officials with several key members of the Senate Armed Services and Foreign Relations Committees. These members have been canvassing the acceptability of the plan among the more dedicated opponents of the arms credit sales.

Several of the latter group, including Senator Frank Church, Democrat of Idaho, acknowledged privately that the effect of this action combined with $205-million cut in military assistance funds had left the Defense Department with a formidable problem.

Senator Church engineered the abolition of the Pentagon revolving fund in the foreign relations panel.

The $383-million revolving fund was terminated in the committee bill effective Dec. 31 along with the 25 per cent guarantee provision. That money as well as estimated annual average repayments of $55-million must be turned in to the general fund of the Treasury.

Without some authority to provide arms on credit through the Export-Import Bank under the 25 per cent guarantee, it will benecessary for Congress to increase military assistance funds by $230-million to enable the Pentagon to meet obligations to United States suppliers between Dec. 31 and the end of the fiscal year on June 30, according to defense officials.

Further $500-million of such obligations will come due in subsequent fiscal years, they say, as a result of past credit sales.

Although precise figures are classified, the Pentagon has additional commitments for future arms deliveries including two installments of $50-million each to the Government of Iran in the current and ensuing fiscal year. Each installment carries an interest rate between 3 per cent [and] 6 per cent over a five- to seven-year period.

In arguing against repeal of the Pentagon's present arms credit authority, Senator John G. Tower, Republican of Texas, told the Senate that such action "would clearly prevent the Department of Defense from living up to these existing commitments unless the export-Import Bank were prepared to make an unguaranteed loan direct to the company concerned [the United States supplier] as in the case of Iran where we are committed."

Actually, the Export-Import Bank would prefer to have nothing to do with arms credit sales to developing countries with or without a guarantee against th ecredit and political risks involved, although it cannot say so publicly because this would contravene Administration policy.

Senator J. W. Fulbright, chairman of the Foreign Relations Committee, told the Senate during debate of the issue that even without the revolving fund and guarantee provisions, the Pentagon had authority under the foreign aid authorization to provide $941-million of arms to developing countries "in dire emergencies.